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Speeches

U.S. Department of Agriculture • Office of Governmental and Public Affairs

**Remarks prepared for delivery by Secretary of Agriculture John R.
Block before the Food and Agriculture Committee of the U.S.
Chamber of Commerce, Washington, D.C., April 8, 1981**

In your invitation you asked me to discuss domestic and international issues of concern to American agriculture and our national economy.

I'm glad you put it in that context because any issue--domestic or global--that concerns American agriculture, automatically concerns the national economy.

What we're dealing with here is the nation's largest employer. The 23 million people employed in agriculture-related jobs make up a fifth of the national labor force.

What we're dealing with is an industry that accounts for 20 percent of the nation's gross national product and whose rate of productivity for the last decade has been greater than non-farm industries.

We're also dealing with an industry which contributes more to the strength of our position in the world economy than any other sector of American commerce.

I don't care whether we're talking about a fellow in jeans and T-shirt preparing the land for spring planting or a young woman inspecting chickens on the line. I don't care whether we're talking about the researcher who helped eliminate the fruitfly from Florida grapefruit or the executive in pinstripe representing American agriculture to a foreign client.

Each of those individuals, because he or she is involved in some way in American agriculture, is this nation's ultimate business person. And it's our goal-- the goal of this administration--to remove the inflationary noose from the neck of American business.

We can best accomplish this in agriculture by reducing government involvement, increasing productivity and exports, and keeping down government costs. We want to create a climate in which unnecessary regulation won't have a chance and profitability will have every opportunity.

Our immediate forum for putting these goals into practice is the 1981 Farm Bill.

In line with the administration's commitment to free enterprise, I've argued in Congressional testimony against the target price concept. I've come out in support of loan programs, on the other hand, because they are repaid.

The administration was pleased that the Congress accepted our move to eliminate the April 1 adjustment in dairy price supports. We consider this the first major test of our budgetary program. In line with our goal

to reduce government involvement in the private sector, we're also aiming to simplify programs wherever possible. The farmer-owned reserve, for example, has been good for farmers and consumers, but a simplified program will be even better.

We're proposing that entry loan levels--reflecting costs in major producing areas and global supply and demand conditions--be determined each year. We would adjust other reserve incentives annually in response to economic conditions.

While bringing down government costs that increased by \$100 billion last year is our unmatched priority, the budget ax will swing with reason and deliberation.

Today's farmers-businessmen deal with far more than inflation, high interest rates, rising costs of inputs, and cash flow problems.

That's just the domestic side of the ledger.

Today's farmers are nothing less than world businessmen.

And with the global supply-demand picture very tight for such commodities as feed grains, oilseeds, and cotton, American production is increasingly looked to to stabilize a fragile world food situation. The fact is that the world feed grain situation is the tightest on record. U.S. production dropped 17 percent in 1980. Foreign demand is heavy. Consumption is reaching a record high. And stocks are being drawn down 36 percent to a record-low ratio.

Last summer's drought also hit U.S. soybean and cotton production, pulling world stocks below recent levels.

World food grains aren't in as tight a situation, but world production is down a little and consumption should be the largest ever. It's projected that this will force global wheat stocks down about 12 percent.

I'm not outlining the world supply-demand outlook just to recite statistics. This situation points up the urgency of increasing productivity to feed the demand for exports.

Agriculture will net a trade surplus of about \$30 billion this year, a huge contribution to the national balance of payments. In USDA, we're giving a favorable budget hearing to programs that expand commercial exports. We're also increasing the loan guarantee level for the Commodity Credit Corporation's export credit program by \$300 million for 1981. We want to help American farmers develop markets they otherwise couldn't get because the prospective buyers lack purchasing power.

To fill this year's supply-demand gap and to meet increased domestic and trade demands for the next 20 years, this nation must improve its food and agriculture technology base. That includes production, processing, and distribution.

But that base depends on research and research depends on funding. I'm convinced of the importance of research in the future of agriculture and this nation. I've argued that importance in 1982 budget hearings. And I've made my point. I believe it's significant in this time of cutbacks that the administration has asked Congress for an increase in the agricultural research budget.

This administration will help boost agricultural productivity and exports because that's good for American agriculture. We're not just talking farming here. We're talking about a major U.S. business whose productivity and profitability will bear on the success of the President's economic revitalization program and will mean net returns for the American economy.

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Remarks prepared for delivery by Secretary of Agriculture John R. Block before the 4th National Food Policy Conference, Washington, D.C., April 8, 1981

There's one important message that I want to bring from this administration to the 4th National Food Policy Conference. It's this:

Less regulation can be more effective regulation.

Less regulation can be more responsive regulation.

Less regulation means less regulatory costs, less federal paperwork, less government intrusion into our lives, and less complex rules. More of each of these only add up to more regulation. They add up to more inflation, suffocated productivity, less incentive, more dependence on the federal government, and more frustration.

I believe that we can strike a reasonable balance between cutting back on federal regulations and maintaining high standards of safety in our food supply.

And I intend to strike it.

The simple truth is that we can no longer afford the price of over-regulation. That price--in both dollars and private incentive--is too high. And we're no longer willing to pay it.

President Reagan made this clear when he signed an Executive Order in February to reduce the burden of existing and future regulations on the industry and the consuming public. In effect, the President said that over-regulation takes its toll on the clear and direct relationship that should exist between industry and consumers.

In line with the President's order, USDA won't be issuing any new food labeling regulations unless it's shown that they are cost effective for industry and consumers.

We're also looking favorably at risk assessment (risks vs. benefits to health) as part of the food safety regulation process.

Be certain that the administration's commitment to a sound food safety policy is strong. USDA's goal is to maintain public confidence in our food supply. But the real goal is to keep the food supply safe. Consumer confidence will follow.

As Chairman of the Food Policy Group, which will bring food safety issues to Cabinet-level discussion, I'll be working on maintaining high standards of consumer protection while streamlining regulation to fit the needs of modern society.

I want to assure you that this administration of USDA will vigorously uphold our responsibility to protect the nation's meat and poultry supply.

This year is the 75th anniversary of the Meat Inspection Act. More important, it's the 75th anniversary of government and industry

working together to provide consumers with safe and wholesome food.

A USDA review of our Illinois inspection program last year showed that we were one of the top state-run inspection programs in the country. I'm proud of that accomplishment. And I want to go on record as continuing my advocacy for sound inspection now that I'm at the federal level.

This anniversary year is a good time to consider the future of the inspection program.

The meat and poultry industries have grown and changed radically in past decades. Processed products, for example, are turned out in great volume under highly automated procedures. Inspection procedures, however, have changed little. Inspection is still largely a manual process. Inspectors, rather than machines, ensure the safety and wholesomeness of foods.

USDA is considering a number of changes to keep "continuous inspection" in line with the demands of today's industry. We're looking, for example, at reforms in slaughter inspection and voluntary quality control. We're also considering giving the Secretary more discretionary authority to tailor inspection resources to the needs of individual processing plants.

The government, as you know, is one of the largest food buyers, spending billions of dollars each year. By translating complex regulations into simple, common-sense programs, we're also making the government an efficient and economical food buyer.

Government food procurement has traditionally been a maze of overlapping regulations and complex specifications. Each agency developed its own specifications and handled its own certification for contract compliance.

Since 1979, USDA has handled all of this work for the government. Under our Food Quality Assurance Program, we're coming up with one simple, easily understood specification for each food item the government buys. As the contact point between industry and government agencies, USDA is matching current industry practices with government needs, and developing one workable specification that everyone can understand and use.

In coming months, we'll also be reviewing the Delaney Clause. This legislative mandate does not take into consideration the relative

strength or health benefits of carcinogens. Nor does it leave any room for scientific discretion. Perhaps, in this inflationary time, we should consider the wisdom behind an immediate ban on a questioned substance--the wisdom that doesn't assess the economic disruption that may result.

Those are among the food safety areas we're reviewing.

I want to stress that the issue isn't a toss-up between cutting government regulatory costs and keeping our food supply safe. We can have it both ways. And we will.

The issue is distinguishing between government's right and proper role and those responsibilities better left to state and local government and the private sector.

The end result will be less--but more effective and more responsive--government regulation, the same high standards of food safety, and a well-earned public trust.

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Remarks prepared for delivery by Secretary of Agriculture John R. Block before the 4th National Food Policy Conference, Washington, D.C., April 8, 1981

There's been a lot written lately about "Sunland, U.S.A.," and the growth taking place in the south for the past decade.

The word "Sunland" is more than a new catch-phrase. It represents a lot of change--in economics, society and history--that has resulted in a more complex and diverse south. And it steers us away from the old tags, like "Sun Belt" or "Cotton Belt," which were better suited to a single crop agriculture and an earlier, simpler time.

Florida and its agriculture are very much a part of the new south and its new diversity.

I'm very pleased to have this chance to talk with you about the relationship between Florida's important agriculture and the problems and changes facing our national agriculture.

It seems to me that Florida represents the most productive and forward-looking aspects of U.S. agriculture, as well as some of its

biggest challenges.

For diversity, for example, we need look no further than Florida production. Your state ranks first in the nation in producing oranges; second in floriculture crops and tomatoes; 13th in dairy products; and 21st in cattle.

The economics of Florida agriculture is about on track with the rest of the nation.

U.S. farm income in 1980 was down about 25 percent from 1979 to an estimated \$23-\$25 billion. Florida's cash receipts from farm marketings dropped last year by almost 4 percent, while production costs increased considerably.

Cash receipts this year are expected to boost net farm income to \$27-\$32 billion. Agricultural production costs should increase about 10-12 percent this year, but they'll be outpaced by the gain in receipts.

Agriculture, like every other industry and individual of this nation, is a victim of inflation. I want you to know that this administration understands the impact of current economic conditions on expenses and net returns in agriculture.

We're working to remove that inflationary burden by reducing government involvement in the marketplace, increasing productivity and exports, and keeping down government costs. We're working to create a climate in which profitability has a chance--a real chance. But all we can do is set the stage, foster a free market and free enterprise environment.

We'll be looking to the private sector, we'll be depending on the states, to take the initiative and assume responsibility for programs that need not be handled at the federal level.

Since taking office just over two months ago, I've had the chance on several occasions to discuss what I consider a near-crisis in U.S. agriculture. That's the loss of our prime agricultural lands.

We're now urbanizing 3 million acres of productive land across the nation each year. I know that Florida producers are acutely aware of the seriousness of the situation.

In the 1960's and 1970's, the Florida Peninsula was the most rapidly growing region of the country, both in metro and non-metro areas. South of St. Augustine and Gainesville, the non-metro population doubled from 1960 to 1970 and the metro areas increased by 85

percent. This runaway population growth into the Peninsula for retirement, recreation, and warm climate is putting great pressure on the supply and cost of farmland.

State Commissioner Doyle Conner put it well when he said: "Our position is perilous. Every time a highway or retirement homes are built on Florida farm land, we increase the likelihood of our dependence on other nations for food. . . Today we are experiencing discomfort and deprivation because of our dependence on foreign oil. Is the next deprivation food?"

No, I say, not if we recognize the situation for what it is. It's a crisis-in-the-making. We must start now to turn it around.

The National Agricultural Lands Study has built a strong case for establishing a national policy for protecting good agricultural land. I support such a policy and I support the study's recommendation that state and local governments take the lead and federal agencies lend support.

Increased productivity from our prime agricultural land is essential to meeting increased domestic and trade demands for the next 20 years. But the situation is urgent now.

The global supply-demand picture is very tight this year and the world increasingly looks to American production to stabilize a fragile food situation.

Agriculture will net a trade surplus of about \$30 billion in 1981, a huge contribution to the national balance of payments. This administration is committed to helping American agriculture expand commercial exports. We're increasing the loan guarantee level for the Commodity Credit Corporation's export credit program by \$300 million for 1981.

I'm fully aware of Florida's outstanding interest and record of success in promoting agricultural exports. I consider Florida a forceful example of a state that works independently and in cooperation with USDA to boost the export of its production.

The Foreign Agricultural Service and the Florida Department of Citrus are working together to make inroads into important European markets under the cooperator program. We're also working with individual firms, under the Export Incentive Program, to increase fresh grapefruit shipments to Japan and fresh vegetable exports to Europe.

Florida last year accounted for about 22 percent of the total value of fruits and fruit products exported by the U.S. This is a major contribution to the national economy.

In all, Florida agriculture represents the production, diversity, aggressiveness and vitality that make U.S. agriculture great. I look forward to working with you to increase your productivity and exports and to make Florida agriculture--and American agriculture--even greater.

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Remarks prepared for delivery by Secretary of Agriculture John R. Block at the Board of Directors meeting of the U.S. Meat Export Federation, Key Bridge Marriott, Arlington, Virginia, April 9, 1981, 11:30 a.m.

I get a certain satisfaction when I'm with a group like this one. In fact, standing here gives me a downright good feeling because I know for a fact that you have been playing my kind of ball game. And you've been playing it long before I was able to get into a position to make some of my pitches.

You know what I'm talking about. I'm talking about the work that is being accomplished in the private sector by your Federation--by each of you and the people you represent. I'm talking about the success you've had in getting out there and doing a lot of the work yourselves. I'm talking about your work as a cooperator with our Foreign Agricultural Service, and about the progress you've made on behalf of all U.S. producers, packers, processors and the many others in agri-businesses.

In your area you have been doing what we hope to get the entire country to start doing--to stand back up on its feet and walk without leaning on the government every step of the way. That's what the President's economic recovery plan is all about.

You know, we always knew that the government was getting too big. We've known that for quite a few years now. But, it really wasn't until we started cutting into the budget that we actually began to see the total picture--how gigantic the federal government has really become. Big in

terms of money spent. Big in terms of how many special interests depended on it. Believe me, it's beyond comprehension. And yes, it has been frustrating to deal with it.

When you come right down to it, how does anyone really know where to draw the line on what should be cut and what shouldn't. We try--but we still have special interest groups coming from all directions with pleas to save their programs.

They say their programs are vital, and maybe to some degree many of them are right. Certainly, many are useful programs that should be continued in some fashion.

Many of them should not die, simply because we have cut the umbilical cord that ties them to the federal government. We hope that some of them can be funded through the private sector--and that's probably where they should have been in the first place.

Now, this doesn't mean that the so-called federal budget ax is going to slice through the entire fiscal pie without careful study. As a farmer and a businessman, I know that certain things pay good dividends. Careful consideration should be given before they are cut. For example, if I were to consider cutting production expenses on the farm--well, I'm going to think a second time about limiting the amount of fertilizer that I apply. Sure, the fertilizer bill is a big one when it arrives in the mail. But the consequences of not using it are just too great.

And that's the way I feel about several areas within the agriculture department's budget. One of those areas involves the expansion of commercial exports of agricultural products. This is one area that pays too many dividends to be considered for drastic budget cuts.

If you know anything at all about where I'm coming from, then you have to know how I feel about agricultural exports. While I was director of agriculture in Illinois, I worked vigorously in the area of agricultural exports. I believed in going to meet the buyer, which is the philosophy your Federation has been taking as it reaches out with offices in various countries.

I know the value of the export market. I know of the great role it plays in keeping our agricultural economy sound at home. And I'm happy to say that the Reagan administration is well aware of the contribution agriculture is making to our balance of payments.

Let's face it. The balance of trade figures are critical. The deficit in non-agricultural trade last fiscal year was in the neighborhood of \$50 billion. That compares with the \$23 billion surplus in agricultural trade that year and an agricultural surplus that may approximate \$29 billion this year.

Believe me, we know the value of keeping those exports in top shape.

We also know the value in allowing the free market to work in agriculture. And this is the area that government programs should provide encouragement--not controls. I believe our export programs will provide this encouragement.

That's why I'm very happy to say that, despite the many cuts you are hearing about in government spending, our Foreign Agricultural Service did not have to suffer a budget reduction. In fact, the FAS budget shows increases substantial enough to reduce the effects of inflation.

In short, we are not going to abandon our commitment to the expansion of our agricultural exports. I think that our exports are going to grow, and the demand for our products will continue to grow.

Working together, I believe that we can foster the kind of climate that will encourage the private sector to take a more active role in developing these new markets. Your Federation has a terrific track record, and I wish you much more success in the future.

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Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

REMARKS PREPARED FOR DELIVERY BY SECRETARY OF AGRICULTURE JOHN BLOCK BEFORE THE NATIONAL PEANUT COUNCIL CONVENTION, MARCO ISLAND, FLA., APRIL 3, 1981

Thank you. I am very pleased to be here today. I appreciate the opportunity to be able to meet many of you personally and to be able to explain first-hand the changes in agricultural legislation that we are proposing to the Congress.

The first priority of this Administration is the improvement of the economy of this country--controlling inflation, reducing unemployment, encouraging investment and badly needed productivity growth, and reducing the unnecessary role of Government in all economic activity. Toward that end, we're cutting back government costs that soared by \$100 billion just last year alone. We're looking to free the market forces and again emphasize private enterprise. To achieve this, all government programs must be scrutinized.

Our general objectives in the agricultural legislative effort are to: (1) reduce the overall role of government in agriculture, (2) increase agricultural productivity, (3) strengthen our export sales, and (4) significantly reduce government costs. Agricultural programs won't be singled out for cutbacks or changed, but they won't be spared, either.

This week, I presented the details of our 1981 Farm Bill proposals to the House and Senate Agriculture Committees. In line with the Administration's commitment to free enterprise and a marketplace that's not burdened by artificial supports, we propose some changes that affect all commodity programs included in the Farm Bill--including peanuts.

Now, I want to turn to the peanut program specifically. I know that some producers are concerned that the 1981 loan rate for quota peanuts was maintained at \$455 per ton, and at \$250 per ton for additional peanuts.

Let me assure you that this decision was reached only after a very careful review of several factors, including the peanut supply and demand situation and other factors. I sympathize with those growers

who had big crop losses last year and face heavy debt repayments. And, I recognize that peanut producers have been making an effort to reduce over-production and heavy government costs by supporting reductions in the poundage quota.

Our thinking in continuing the 1980 quota loan rate is this: the price support loan is not the market for peanuts. It's a floor on which farmers can plan their farm operations. It's an interim marketing tool, similar to price support levels for other commodities.

If we were to increase the support level on quota peanuts, our losses on surplus production within the quota would increase Government costs. Moreover, the 1980 short crop has resulted in some contracting for domestic use at prices well above the quota loan level.

We firmly believe that the peanut industry, once freed from the rigid program structure that now exists, will be able to grow and expand as other commodities have done under similar circumstances. The cotton and rice industries are good examples. The soybean industry is perhaps an even better one. Without rigid Government programs, our soybean producers have been able to capture an increasing share of the world oil and meal markets. We think that the growing world demand for protein will mean that U.S. peanut producers can eventually fully compete and capture a growing share of the world's edible peanut, oil, and meal markets in the future. The modifications that we are proposing are intended to encourage that to happen in a gradual manner. New uses for peanuts would emerge.

The National Peanut Council's Export Committee is to be commended for its efforts to develop new and expanded markets abroad for U.S. peanuts. I am impressed by the industry's success in selling U.S. peanuts in foreign markets. The U.S. share of annual world peanut exports increased from about 13 percent in 1976 to nearly 51 percent in 1979.

We believe that the peanut industry, like our feed grain, soybean, cotton and wheat producers can, with their ingenuity and productivity, realize full returns when they produce for growing domestic and world markets--returns and income levels that can never be realized when a significant share of production is for Government programs alone. We see strong evidence that demand is increasing rapidly and that the outlook is favorable. If we had not had such bad weather last year, we

would be in a much better position to build and fill those markets than we are.

Our proposal is to gradually remove the limitations by eliminating the acreage allotments in 1982, but reduce marketing quotas gradually by 10 percent per year. This will allow farmers, who presently lease the right to grow peanuts for domestic or export use, to grow non-quota peanuts for export--as needed--without an allotment. By reducing marketing quotas gradually, allotment holders are protected against a sharp adjustment in their asset base.

To make sure we have enough supplies for domestic needs, we propose to give domestic users an equal chance to buy non-quota peanuts under USDA supervision. And, all of this will be done with full participation of the grower associations.

I know that some of you are concerned about moving the peanut program to a more market-oriented approach--that is the reason we are moving gradually. We look to the peanut industry to understand our thinking, work with us, and support our decisions that will wean American agricultural away from Federal intrusion and toward independent, competitive production and marketing.

Toward this end, I assure you that the Department of Agriculture stands ready to help the peanut industry develop new markets at home and abroad to aid the peanut industry. I am confident that with freer trade the peanut producers of this great Nation can eventually compete with anyone in the world.

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STATEMENT BY JOHN R. BLOCK SECRETARY OF AGRICULTURE BEFORE THE COURTS SUBCOMMITTEE OF THE SENATE JUDICIARY COMMITTEE APRIL 6, 1981

Mr. Chairman, members of the Subcommittee. I appreciate the opportunity to testify today on grain warehouse failures and their effect on the agricultural community. C. W. McMillan, Assistant Secretary for Marketing and Transportation Services, is with me to address your concerns.

I do not feel that discussing this matter in terms of the "agricultural community" overstates the issue. Because banks frequently accept a warehouse receipt as collateral, the insolvency of a given warehouse or elevator affects farmers, the government and its warehouse programs, and the financial community.

I want you to know that the Department of Agriculture understands the scope and severity of the issue before us, and appreciates the subcommittee's interest and desire to be of help.

We have reviewed the Chairman's bill to amend the Bankruptcy Act and note the provision for fast removal of agricultural commodities in bankrupt warehouses. The Department is not in a position at this time to offer an assessment of the proposed bill. However, we can offer some insight into the problem as we see it today.

I believe that a key point is the fact that USDA regulates only those grain warehouses that elect to be licensed under the Federal Warehouse Act or elect to be approved by the Commodity Credit Corporation. These warehouses must be examined periodically and these examinations must be performed or supervised by USDA.

The U. S. Warehouse Act also regulates grain storage in federally licensed warehouses. These regulations, which pertain to warehouses' net worth, are designed to assure solvency of warehouses storing grain under the Act.

It has been estimated that there are about 10,000 grain elevators and warehouses operating in the United States. As of the end of FY 1980, there were 1,828 of these with a storage capacity of about 3 billion bushels licensed under the U. S. Warehouse Act. Most of these elevators or warehouses also have an approved CCC storage agreement. There were about 6,300 grain facilities with storage capacity of about 6 billion bushels approved for storage agreements with CCC as of the end of FY 1980. Therefore, there are many grain elevators or warehouses that operate solely under State regulation and supervision or no regulation at all.

Our Office of Inspector General has reviewed warehouse regulations for 16 states. The findings are that state requirements for net worth and bonding vary considerably among states and are generally less stringent than federal requirements.

I believe that this information makes relevant the findings of a study by the Illinois Legislative Council on Grain Elevator Bankruptcies.

According to that study, 22 grain producing and midwestern states reported 104 grain elevator bankruptcies in the United States between 1974 and 1979. The number of farmer-claimants for all reported bankruptcies was just over 3,000. There were 420 other claimants.

The real significance of this information is the fact that only two of the 104 bankrupt elevators were federally licensed and the required U. S. Warehouse Act bond protected the grain depositors.

As a result of a recent and widely noted grain elevator bankruptcy the Department, at my request, is doing something.

Just one month after coming into office, on February 26, I appointed a USDA Task Force to review current grain warehouse laws and regulations. I have asked the Task Force to tell me what needs to be done to safeguard the interests of all-- farmers, consumers and those with a financial stake--in the event of elevator bankruptcies.

The Acting Administrator of the Agricultural Stabilization and Conservation Service is chairing the Task Force. The group includes representation from a cross- section of USDA agencies and brings a substantial amount of Department expertise to address this issue.

The Task Force has published notice in the Federal Register asking the public to comment by April 15 on warehouse bankruptcies and protecting the common interest. The group has also asked all states for detailed information on elevator bankruptcies within their jurisdiction. Task Force members are meeting with farm organizations and representatives of the warehouse industry for additional information.

I must stress at this time that the USDA Task Force is not focusing on specific elevators or areas of the country. Nor will they respond to questions on specific bankruptcy cases.

I understand that there may be an impression in some quarters that a wave of insolvencies is imminent. USDA does not believe this is true. Our interest in this matter springs from our desire to evaluate whatever problem exists right now, and not from any anticipation of a greater problem. We do not, at this time, wish to offer a suggested solution.

The fact is that there is very little documentation on the warehouse and elevator bankruptcy issue in the U.S. We in USDA want to lend

our expertise.

We want to work with the Subcommittee toward making the changes which may be necessary to protect the many sectors of the agricultural community from the damage that results from grain warehouse failures.

Thank you for this opportunity to comment.

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**STATEMENT OF RICHARD LYNG, DEPUTY SECRETARY
OF AGRICULTURE, BEFORE THE COMON
AGRICULTURE, NUTRITION, AND FORESTRY APRIL 6,
1981**

INTRODUCTION

Mr. Chairman and Members of the Committee, I am Richard Lyng, deputy secretary of the department of agriculture. I am pleased to be before you today to discuss reauthorization of the food stamp program and commodity distribution programs. I particularly want to share with you our proposals to improve the operations of the food stamp program.

I appreciate the support that this Committee has extended to these nutritional programs in the past.

THE PRESIDENT'S ECONOMIC RECOVERY PROGRAM

The proposals that I will discuss with you today must be examined as a part of the President's comprehensive program for economic recovery. That plan consisted of four major components: 1) a substantial reduction in the growth of federal expenditures; 2) a significant reduction in federal taxes; 3) a monetary policy on the part of the independent Federal Reserve System that is consistent with these policies.

The actions we will discuss today address most immediately the first point of the president's plan--decreasing the growth of federal spending. The rapid and excessive increase in federal expenditures has disrupted our economy, resulted in both unemployment and high inflation,

decreased productivity, and discouraged investments. In the past two years the Consumer Price Index for all items went up over 24 percent. Unemployment rose from nearly 6 percent to over 7 percent. Borrowing to finance the growing federal deficits has hurt sustained economic growth. A vicious circle has been created whereby sluggish economic growth and rising unemployment leads to additional budget spending, higher budget deficits and still less growth.

Efforts to control federal spending and balance the budget have been thwarted by economic recessions as external economic forces reversed planned policy of Congress and the Executive Branch. Economic recovery can only be achieved by restraining the growth of federal spending.

I think it is very important to stress that an improved economy under the president's program for economic recovery will directly equate to reduced need for program benefits. Food stamp allotments are based on the level of food prices in the retail markets and the rate of unemployment affects the number of program participants. Every increase of 1 percent in the price of food adds \$150 million to the cost of the program. Every increase of 1 percent in the unemployment rate adds 1.25 million participants, adding \$557 million to issued benefits each year. Improving economic conditions will result in a concurrent reduction in program costs. In fact, our budget request for fiscal year 1982 is reduced \$380 million from the prior Administration's estimate, reflecting our overall program for reducing unemployment.

Mr. Chairman, the average American will be greatly benefited by the president's economic program. As we pointed out in the president's fiscal year 1982 budget revisions, current double digit inflation can be cut in half by 1986. Reduced tax burdens and increased private saving will result in productive investment. The economy will revive, showing a steady and sustained year to year growth. We expect high unemployment rates will be reduced, and to see the creation of some 13 million new jobs by 1986. The bottom line effect of reducing federal spending is an improved living standard for all Americans.

GROWTH IN THE FOOD STAMP PROGRAM

The growth of the food stamp program is a good case study in examining the overall growth in federal expenditures. Chart 1 displays

the total federal and state share of administrative costs of the program during the last 10 years. In fiscal year 1971, total program costs were 1.6 billion, representing bonus stamps of \$1.5 billion. In fiscal year 1981, we expect costs to exceed \$11.4 billion with bonus costs of about \$10.3 billion.

In real dollars, the program has grown from \$1.6 billion to \$5.0 billion for a total of \$3.4 billion, representing an average annual increase of about 12 percent. During the last decade the total federal budget outlays have grown from \$197 billion in fiscal year 1970 to \$580 billion in fiscal year 1980, an average annual increase of over 11 percent; corrected for inflation this represents a growth of about 3 percent annually. Therefore, in real terms, the food stamp program budget has grown much faster than the overall budget, four times as fast even after adjusting for inflation.

It is important to keep in mind that economic conditions characterized by recession and increasing inflation have strongly influenced the current program's costs and number of participants, as well as significant program changes I will review shortly. In fiscal year 1971, the program was benefiting an average of 9.4 million persons. Preliminary data on current participation shows an average of nearly 23 million persons monthly.

BACKGROUND

Another very important factor in the growth of the program has been the rapidly changing program coverage brought about by extensive legislative changes over the last decade. Chart 2 highlights economic and participation changes in the past decade and the legislative adjustments that were intended to tighten program requirements and improve and simplify administration.

The original Food Stamp Act of 1964 allowed states to define the program's financial eligibility limits consistent with their varying standards for welfare assistance. Public Law No. 91-671 in 1971 substantially modified eligibility rules from state-set to federally-set. The impetus behind the major change was Congressional concern over what was viewed as low participation in the program.

In 1973, Public Law No. 93-86 required all areas of the country to operate the program by July 1974. This law also mandated that the food

stamp allotments were to be adjusted according to food-price changes semi-annually. This provision had an indirect impact on eligibility requirements because the income eligibility standards were tied to the allotment levels.

Congress substantially changed the program in enacting the Food Stamp Act of 1977. Perhaps the most significant change in that legislation was the elimination of the purchase requirement (EPR). While the eligibility restrictions removed 500,000 to 700,000 people from the program, EPR was the Act's major factor leading to increased participation of an estimated 4.0 to 5.2 million persons, a net gain of at least 3.5 to 4.5 million persons.

When Congress amended the 1977 Act in 1979, it tightened fraud detection. The 1979 amendments required applicants to provide Social Security numbers, required persons disqualified for fraud to repay benefits prior to further participation, and increased state incentives for fraud recoveries. However, the 1979 amendments greatly expanded program costs by broadening eligibility and benefits with additional deductions for medical expenses and excess shelter costs for elderly and disabled households. All were implemented by states in early 1980.

Later in 1980, a third piece of legislation was enacted. The amendments reduced net income limits, lowered the resource limits for most households, cut back on college student participation and provided for annual adjustments of allotments. These amendments also initiated an error rate sanction system which penalize states that fail to make progress in reducing error rates.

Verification procedures were also expanded so states would have additional tools to use in confirming a household's circumstances. While preliminary regulations were issued in January to carry out the verification changes, many of the 1980 law changes have complicated the administration of the program and clearly directed it to become much more than a food program, but an indirect subsidy for medical, housing and shelter costs. While we believe these are critical concerns, the food stamp program should not be used to be the cure for these other social problems. Changes since 1977 have added on more specialized deductions and complicated the administration of the program. These have resulted in increased charges of fraud, abuse and error.

Therefore, over the years subtle changes in eligibility standards have caused the program to expand its coverage to the extent that we believe it has seriously drifted from its original goal. It has evolved into a program not clearly targeted for the nutritional assistance of low-income households. Rather, middle income households have been able to use it as an income subsidy program. Duplication of benefits to families from many federal programs has not been focused on and eliminated. Unnecessary program costs which strain our resources cannot be allowed if we intend to substantially reduce federal expenditures.

As you will see from the specific proposals I will present today, we intend to continue program reform which has prevented fraud. At the same time we intend to reverse the trend of broadening eligibility to middle income households and duplication between federal assistance programs. We believe our plan will bring the program back on its original course, continuing the work of Congress in targeting benefits and easing the administrative burden on states. We will continue to place our emphasis on tools to return the food stamp program to its original purpose of supplementing the food needs of needy households.

ADMINISTRATION PROPOSALS

The amendments we are proposing will have several recurrent themes. We want to reduce costs by providing benefits only to those most in need. We are simplifying certain provisions to reduce errors. We are improving the delivery of services and the effectiveness of the program in meeting nutritional goals. Finally, we want to reduce the program's administrative burden placed on the states. In addition to the legislative proposals, we have been actively seeking state and public input into ways to modify existing regulations to similarly achieve these broad program reform goals. Proposals to modify existing regulations are well underway, and some should be implemented by early July. Overall, we believe the combined legislative and regulatory proposals are designed to be equitable to states and those households the program is intended to serve.

We estimate our proposal will save about \$2 billion in fiscal years 1982 (Table 1) and 1983. This would represent a 16 percent decrease in program costs in Fiscal Year 1982. Savings would grow to \$3 billion in fiscal years 1984 and 1985. This totals budget savings of \$10 billion

during the next four fiscal years.

TARGETING BENEFITS

Let me now turn to the specific proposals we have in mind. We intend to protect benefits for households, following the original purpose of the program, and also significantly reduce spending.

--Our first measure would restrict eligibility to households with gross monthly income at or below 130 percent of the poverty line.

The current program uses net monthly income after allowable deductions to determine eligibility and benefit level. A family of four with no elderly member could qualify in July 1981 with an annual gross income of up to \$14,000 per year or approximately 160% of the poverty level. Given there is no limit on shelter and medical expense deductions for households containing an elderly and disabled member, these households can have even higher gross incomes and still be eligible depending on their deduction levels and household size. The proposed eligibility standard, set at 130 percent of the annual nonfarm income poverty guideline, would set the income eligibility standard for a family of four at approximately \$11,000 a year. The limits for other household sizes are shown on Chart 3. The current procedure of using net monthly income to determine the benefit level would remain the same. These limits would remove households with high gross incomes who take advantage of current deductions in order to gain entry into the program.

We believe setting the standard at 130 percent rather than 100 percent of the poverty guideline represents a reasonable income limit to be used as a measure for determining eligibility. It targets benefits to low-income households at a limit which is approximately the same as the income eligibility standard for the national school lunch program. We believe it allows those who are just over the poverty level to obtain benefits but does not extend the limit to those who have sufficient income to manage.

Using a gross income eligibility standard of 130% of the poverty level rather than a net income eligibility screen will target benefits to those most in need, saving approximately \$273 million in fiscal year 1982.

--We also propose to reduce food stamp benefits received by families with students eligible to receive free school lunches.

Currently, most school age children whose families participate in the program are eligible for a free lunch under the national school lunch program. This means the federal government subsidizes these students' lunch twice each school day. The legislation would eliminate these duplicate benefits.

Previous arguments against this position have centered on administrative expense and burden. The procedure we propose uses a national formula that eliminates the need for verifying school attendance records for each child or calculating monthly reductions on an attendance basis. The formula provides a school year per person reduction amount, calculated from the per person/per meal value for the Thrifty Food Plan for a household consisting of six persons in effect at the beginning of the school year and a national average of school day attendance. In 1982, this will mean a 67 cent per person/per meal guarantee in food stamps, approximately half the subsidy of a school lunch-\$1.28. To avoid unduly hurting families with a large number of school age children, the maximum number of household members counted as students for reduction purposes will be 4. Using our 67 cent figure, this means a food stamp household would not have its annual food stamp benefits reduced more than \$432. Students who do not participate in school lunch programs because of religious or medical reasons, or because the School Lunch Program is not offered, qualify for an exception from this rule.

The department would work to ensure this amendment would be enacted rapidly by State officials so budget savings can be quickly realized, preferably with the beginning of the school year. If implemented on schedule, estimated savings would be \$522 million for fiscal year 1982. Approximately 2.5 million households in an average school month would be affected.

--Our third step intended to target program benefits to the most needy will eliminate residents of drug addict and alcoholic treatment and rehabilitation programs, residents of group living arrangements for the blind and disabled, and residents of homes for battered women and children. We would also exclude commercial boarders.

The Food Stamp Program was always intended to serve households. Expanding the program to the institutionalized has changed its original goals, complicated administration, and jeopardized program integrity. Residents of these programs could be better served through existing programs of commodity assistance to institutions.

We estimate the proposed changes would reduce program costs an estimated \$12 million from eliminating institutions and \$50 million from eliminating boarders in fiscal year 1982. Addressing Unnecessary Complications in Administration and Inflationary Factors.

We are proposing further technical changes to streamline the program and address inflationary factors.

--We would propose that annual adjustments in the cost of the Thrifty Food Plan be based on data for the 12-month period ending each preceeding September rather than December.

This eliminates the uncertain projection of food prices for the last three months of the calendar year and is much more practicable to implement. A similar proposal was included in the last Carter budget proposal. This will also result in savings of \$359 million in fiscal year 1982 and smaller amounts in succeeding years.

--Another important change is to eliminate the indexing of the standard deduction and the dependent care/excess shelter expense deduction cap and "freeze" them at their current amounts.

In general, these particular deductions serve as a mechanism for using the program to indirectly subsidize consumption of these other items. We believe the program's subsidy should be targeted to the greatest extent possible on food, not non-food items.

An additional problem includes the method of indexing these deductions. At present, the level of these deductions is based on the Consumer Price Index (CPI) less food which is heavily influenced by homeownership costs. During 1980 over 30 percent of this index consisted of homeownership costs.

Use of the gross income test I spoke about earlier will remove the impact of these deductions on eligibility. Freezing the amounts will allow the amounts to reflect more representative household costs. The gross income eligibility standard and the Thrifty Food Plan will continue to be indexed on an annual basis.

This change will result in considerable cost savings of \$123 million in fiscal year 1982.

--In another step affecting deductions, we would repeal the two increases in dependent care and medical expense deductions enacted under the 1980 amendments.

In essence, this means current rules would remain in effect--a separate dependent care deduction would not be established and the medical deduction would not be expanded. Again, a similar proposal was included in the Carter budget submission.

Both changes under the 1980 amendments create problems in administrative complexity. Moreover, an increased medical deduction, with expanded household coverage, could duplicate benefits available from programs like Medicare or Medicaid. Repeal would tighten the program and remove an unnecessary complication in managing the program.

We estimate this proposal will result in savings of \$60 million in fiscal year 1982 and more in the following years.

INCREASED PRECISION IN CALCULATION OF AND DELIVERY OF BENEFITS

The administration's proposals sets forth several procedures to increase the precision of benefit calculation and improve the delivery of benefits.

--We propose that the retrospective accounting period and periodic reporting system enacted under the 1980 amendments be strengthened.

Under our proposal, states could no longer choose between a prospective, anticipatory system and a retrospective system to determine eligibility and compute allotments. A retrospective accounting system and periodic reporting would be made mandatory except for certain groups. The current one month accounting period would be retained.

The provision has several advantages. It provides for a more accurate computation of benefits since actual household circumstances would be used. It will simplify certification procedures and reduce errors since only one accounting system will be used for both applicants and recipients. Households who file periodic reports could be certified longer than 12 months. It will remove prospective accounting inequities

which allowed immediate supplementation of benefits when a household lost income or gained a new member but, on the other hand, did not immediately reduce benefits when household circumstances improved.

The department would not be allowed to devise a procedure within this system to avoid imposing a serious hardship on applicants who have experienced sudden losses of income through no fault of their own. Lastly, the retrospective accounting and periodic reporting is consistent with AFDC rules and should facilitate the processing of households receiving benefits under food stamp and public assistance programs.

We would require all states to implement this system by October, 1983, allowing for necessary time to adjust data processing and institute a monthly reporting system. This system will more than pay for itself by Fiscal Year 1984. We believe it is an important tool in achieving equity in the program.

INCREASE PROGRAM ACCOUNTABILITY AND CONTROL

Our final measures will increase program accountability and control. We have built on provisions currently in the Act to close gaps and encourage efforts to reduce abuse and error rates.

--We see a need to increase the use of the disqualification method of penalizing individuals who violate program rules by easing the criteria needed for State officials to conduct administrative hearings.

This plan would replace the term "fraud" with "willful misrepresentation" as an action subject to a hearing and disqualification penalties. States will no longer be constrained due to the difficulty of proving fraud prior to imposition of program penalties.

We would expand the use of allotment recovery to collect overpayments. Nonfraud recoveries would be limited to households which have the ability or resources to pay. In other words, a nonfraud household would have to have money available to meet its food needs before States could actually recover overpayments. Persons found guilty of willful misrepresentation would, in addition to disqualification, be subject to having all benefits recovered without taking resources and income into consideration.

We would expand the authority of the secretary to allow state retention of 50 percent of all claims collected with the exception of State-caused errors. This strengthens the provisions of the 1979 Amendments which allowed states to keep half the money they recovered through fraud collection efforts. States would be urged to use these additional funds to improve collection efforts directed at nonparticipating households, now beyond the program penalties of disqualification and recovery of overpayments.

Through these changes, states will have further tools, greater authority, and additional incentives to collect. Overall, these amendments will serve as a stronger deterrent to program abuse.

--Another sensitive program area is the participation of retail food stores in the program.

Our proposal tightens the retail food store definition to eliminate firms which do only a marginal food business. Current legislation authorizes bars, gas stations, carryout shops, and others who have small food sections to be a retailer. We want to close that loophole and concentrate on limiting our definition of a retail food store to a full line grocery store or other businesses whose food sales are at least half the total gross sales. The only exception will be for firms which are the only source of staple food items in an area.

In addition, another proposal will provide more specific language on what items constitute staple food and accessory food items.

Another part of our proposal responds to abuse of the 1977 Act provision which permits the giving of up to 99 cents in cash in a food stamp transaction. This policy has resulted in some incidents of manipulation by individuals to get cash to buy ineligible food items. For example, households may purchase a five-cent eligible food item and use the cash change to purchase alcoholic beverages.

Rather than strictly return to the old credit slip system, also criticized, it is more workable to provide for cash change only in transactions in which the total food stamp purchase exceeds five dollars. Credit slips not to exceed 99 cents would be used in transactions where the food stamp purchase is less than five dollars.

--The legislation makes certain modifications in current law regarding State issuance losses, liability, incentives for error reduction, and corrective action planning.

These are intended to remove gaps in the law and emphasize the importance of corrective measures and sound management to achieve low error standards and control issuance losses. We cannot accept any lessening of efforts in this area.

--These are only some of the measures we are proposing in management and monitoring improvements. There are a good many others as well which address program inequities, simplify administration and focus on state flexibility. For example, States administering workfare under Aid to Families with Dependent Children will be allowed to expand their workfare program to cover non-public assistance food stamp households. Moreover, the department is fully committed to identifying where the program can be strengthened under current legislative authority. A good example is regulations we will propose soon to tie the benefit level during the month of application to the time of the month the household applies. Those households that apply in the latter half of the month would receive one-half month's benefits. We expect this to both respond to the actual food need of the household and have significant cost savings--\$210 million in fiscal year 1982 and similar amounts in succeeding years.

BLOCK NUTRITION GRANTS

This proposal would block grant the administration of the food assistance programs in Puerto Rico, and authorize this to be extended later to the Virgin Islands, Guam, American Samoa, the Trust Territory of the Pacific Islands and the Commonwealth of the Northern Marianas. Instead of providing assistance via categorical programs--food stamp and child feeding programs--federal assistance would be consolidated into a block grant for area authorities to administer.

The unique characteristics of these areas necessitated a re-examination of the federal role in providing nutritional assistance there. Programs designed for the continental United States are not necessarily compatible with local needs. We feel state authorities are in the best position to formulate, establish, and administer food and nutrition programs in these areas to respond to the needs of their citizens. A block grant provides the greatest latitude possible for State administration.

The block grant would be an amount equal to 75 percent of the total federal amount that would have been received under the categorical programs in Puerto Rico in fiscal year 1982. We anticipate that the block grant in Puerto Rico alone would save close to \$300 million in fiscal year 1982.

IMPACT ON RECIPIENTS

Reducing government spending will result in benefits to all Americans, especially the low-income and those on fixed incomes which are plagued with the dual problems of high inflation and unemployment. Reducing government dependency, for those who are not in severe need of assistance means that some current recipients will have reduced benefits.

Overall, we anticipate that our proposals will result in 363,000 households or 1 million persons made ineligible by setting a gross income limit at 130 percent of poverty. These households fall outside what we believe to be an appropriate income level for eligibility in this program. Of those households remaining eligible, 35 percent will see reduced benefits of \$6 or more per month. This results primarily from eliminating duplicate benefits provided through the school lunch and food stamp program.

REAUTHORIZATION

FOOD STAMP PROGRAM

We are requesting appropriation authority through fiscal year 1985 for the Food Stamp Program, continuing the fixed dollar authorization ceilings. If sufficient funds are not available to provide the established benefit levels to all participating households, then benefits may be reduced to ensure we remain within the appropriation.

COMMODITY DISTRIBUTION PROGRAMS

Mr. Chairman, we are proposing to amend the Agriculture and Consumer Protection Act of 1973 to extend the Secretary's authority to purchase and distribute commodities through fiscal year 1985. Our proposal adds an amendment to provide penalties for the fraudulent misuse of commodities, similar to penalties under the National School Lunch and Child Nutrition Acts.

We are requesting an extension through fiscal year 1985 in the authorization for administrative funds for the commodity supplemental food program. Certain technical improvements regarding this funding will also be proposed.

SUMMARY

I should like to close by summarizing the goals we have set in preparing our legislative package for the Food Stamp Program, the largest domestic food assistance program in terms of total program benefits.

It is the result of a thorough examination of the program. The proposal enhances measures Congress already has enacted. We believe its provisions directly design benefits to meet the food needs of low income households. Our language expressly eliminates the subsidization or duplication of other programs which meet non-food household expenditures. It will control administrative costs, further reduce fraud, error and abuse, and improve program efficiency in meeting the nutritional needs of eligible Americans. The bill's provisions will create, we believe, minimum disruption to state operations as the new rules are implemented.

This proposal fully supports the president's objectives in attacking inflation and other economic ills. It tailors the program to the overall recovery process to result in targeted nutrition assistance for needy households. As we look forward to the next few years, we want to ensure that the program is an affordable, efficient one which clearly meets the needs of those households requiring food assistance. The outside influences on the program--inflation and unemployment--ultimately must be controlled.

I appreciate the opportunity to appear before the committee and would like to respond to any questions you might have.

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**STATEMENT OF RICHARD E. LYNG DEPUTY
SECRETARY OF AGRICULTURE BEFORE THE HOUSE
COMMITTEE ON BANKING, FINANCE AND URBAN
AFFAIRS SUBCOMMITTEE ON HOUSING AND
COMMUNITY DEVELOPMENT APRIL 8, 1981**

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to review with you the Department's rural housing program administered by the Farmers Home Administration.

Housing is one of the areas where inflation has been most damaging to the American family budget. The benefits of President Reagan's program for getting costs of living back in hand will be most welcome and most apparent as the programs take effect on homebuying and home maintenance costs.

In the President's development of his measures for economic recovery, he has maintained a high priority for the FmHA housing program, since it is an important way to improve housing and provide a mortgage credit opportunity for rural people of low income and greatest need.

In token of that priority, and contingent upon extension of program authority beyond the present expiration date of next September 30, he has provided in the budget for continuing the low-and moderate-income Section 502 rural housing program at present funding levels during the next 18 months. He has managed to exempt this low-income rural housing from the prevailing rate of rollback in national budget that is mandatory for overcoming inflation.

The Secretary of Agriculture will be submitting to Congress a bill to extend through fiscal year 1983 the authority for various housing programs under Title V of the Housing Act of 1949 as amended.

He will ask for loan authority of approximately \$3.7 billion for fiscal year 1982. Some \$3.1 billion would be allocated to Section 502 home ownership and Section 515 rental housing loans benefitting people of lower income.

He will also ask for authorization to maintain unsubsidized FmHA mortgage credit for moderate-income families at the present level of about \$500 million a year; also to continue programs meeting other special needs such as farm labor housing, repair of deficient homes

owned by very-low-income senior citizens and others, homebuilding by low-income families by the self help method, and rental assistance for low-income rural people.

The Secretary has recently transmitted a bill that would serve to confine the Interest Credit subsidy to low-income borrowers. That bill represents a deletion of amendments added to the act the last two years that call for --

- Subsidies to be extended to moderate-income borrowers;
- A mandatory ceiling on low income set at 80 percent of area median income;
- A quota that 30 percent of all assistance under Title V go to families having less than half of area median income.

The implementation of these amendments has been delayed pending action by the Congress on the request that they be reconsidered.

There is serious question that implementation of these amendments would result in serious inequities. They would exclude many people from low-income classification in areas where poverty is most prevalent and would increase dramatically the number eligible for subsidies in more affluent areas.

In areas of the highest incidence of poverty, the proposed new basis for fixing low-income ceilings by area would force the ceiling down as low as \$9,300 a year from the presently established nationwide ceiling of \$11,200. In more affluent areas, the ceiling would go up to as much as \$14,900.

The Administration believes that areas of high concentration of poverty should receive their appropriate share of Interest Credit assistance. Where the present nationwide definition of low income does not fully compensate for differences in housing costs, adjustments can be made administratively on the basis of regional median income and other factors that apply.

We have found that it would be difficult in many areas to meet the requirement that 30 percent of all loans go to people having less than 50 percent of area median income, because many of these people would have difficulty making mortgage payments - even with full interest subsidy - on such limited income.

The extension of subsidies to moderate-income families as provided in legislation of 1980 would result in a substantial increase in federal

cost. This does not appear to be justified under the criteria of need that prevails in the rural housing program. Families in this category would be among those most likely to be able repay loans for adequate housing without Interest Credit subsidy. For these reasons, we have recommended that Interest Credit remain a service to low-income people.

We will continue to maximize the use of existing homes, with improvement, as an answer to excessive cost of new housing for rural people of limited means. At the present time, families accommodated in this way are having to borrow about \$5,000 less, on the average, than they would have to borrow to buy a new home. Section 502 loans for new houses in rural areas are averaging in the range of \$39,000. For existing houses including cost of improvement, loans are averaging in the range of \$34,000.

The President's budget proposes to maintain the subsidized Section 515 rental housing program at an annual level of \$870 million through fiscal 1982. All this financing will be devoted to Interest Credit loans to house senior citizens and other low-and moderate-income people. This program offers an alternative to families or elderly people who cannot afford single-family homes.

As to general quality of administration of FmHA housing programs, we are confident that improvement will become apparent within the coming year. This will result from actions being taken to reorient FmHA toward its fundamental mission to serve borrowers of greatest need--those who have recourse to no other source of credit. This restoration is especially overdue in certain programs that have wandered out of bounds in recent years. One effect should be to enhance the quality of housing programs that have suffered from inadequate loan processing and loan servicing by heavily overworked field staff in FmHA offices.

The Committee is aware that a moratorium on assumption transfers of loans from old to new FmHA borrowers has been in effect since January, due to a backlog caused by operational problems in the agency's automatic data processing system in St. Louis, Missouri. During this period, new loans have been made to some borrowers who might have assumed loans outstanding. This has resulted in use of current year's loan money that would not occur had existing loans been

assumed. The National Finance Office is expected to lift this moratorium and resume regular processing of assumptions on May 1.

The Subcommittee has raised the possibility of requiring the budget to show, as a separate line item, the estimated budget authority that would be required over the full life of Interest Credit loans made each fiscal year. This would be similar to the budget treatment for Rental Assistance. In our opinion, the adoption of this procedure would create grave problems that would jeopardize the Interest Credit program. Budget authority would have to be increased about four-fold, and an Interest Credit program subject to this type of restriction would be almost impossible to administer.

That concludes my prepared remarks, Mr. Chairman. I will be glad to reply to any questions you or members of the Committee may have.

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News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

POLAND BUYS 60,000 METRIC TONS OF U. S. DAIRY PRODUCTS

WASHINGTON, April 3--Secretary of Agriculture John R. Block today announced that the Polish People's Republic would purchase 30,000 metric tons of butter and 30,000 metric tons of skimmed milk powder.

The announcement followed talks today between Block and Polish Vice Premier Mieczyslaw Jagielski.

Block said the 60,000 metric tons was "one of the largest single sales of surplus dairy products in a government-to-government basis in U.S. history. It will come out of the stocks owned by USDA's Commodity Credit Corporation, having been purchased as part of the dairy price support program."

Block said the sale, estimated at more than \$70 million, "will certainly help the people of Poland at a time when they need food. It also will help remove some of the dairy surplus stocks which are being held by the CCC."

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COMMODITY CREDIT CORPORATION SELLS SAMPLE GRADE CORN

WASHINGTON, April 6--The Commodity Credit Corporation has completed selling about 4 million bushels of government-owned "sample" grade corn back to the private market, according to Edward Hews, acting CCC executive vice president.

The corn, marketed from early February through the end of March, was part of 160 million bushels CCC purchased last year following the embargo of grain shipments to the Soviet Union announced Jan. 4, 1980.

Hews said the corn had been designated "sample" grade because a high percentage of kernels were cracked and broken through shipping

and handling, and had to be sold to prevent losses due to further deterioration of the grain.

No further sales offerings of storable CCC-owned corn will be made before May 15, the final loan settlement date for corn held in the farmer-owned grain reserve, Hews said.

"In selling these 4 million bushels, CCC made every effort to avoid disrupting local markets," Hews said. "The prices received ranged from \$2.05 to \$3.52 per bushel, depending on quality and location differentials."

About one-fourth of the corn sold was located in Texas, with sales of lesser amounts in 13 other states, Hews said. About 71 percent of the sales were made to the warehouse in which the corn was stored.

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USDA DENIES PETITION FOR HEARING ON RECONSTITUTED MILK PRICING

WASHINGTON, April 7--The U.S. Department of Agriculture has denied a petition requesting USDA to hold a hearing on the pricing of reconstituted milk under all federal milk marketing orders, according to Secretary of Agriculture John R. Block.

The petition was from the Community Nutrition Institute, a Washington-based non-profit organization which specializes in food and nutrition issues, and from a milk processor and three consumers.

Reconstituted milk may be made by adding water and butterfat to nonfat dry milk. Under federal milk marketing orders, it is priced as a Class I fluid milk product, the highest price category under the orders.

The petitioners had requested that reconstituted milk processed by handlers be placed in a lower price classification under the orders. They claimed the current pricing removes the incentive for processors to make available to consumers what petitioners believe could be an equally nutritious but lower-cost alternative to other fluid milk.

In a letter to the petitioners, Block cited the following reasons for his action:

-- Adopting the reconstituted milk proposal would seriously undermine classified milk pricing under the orders and thus not carry

out the mandate of Congress in authorizing milk orders.

-- The competitive problems that would result from non-uniform pricing of fluid milk products would lead to pressures to lower Class I prices for fresh milk. This would result in a substantial decline in the income of dairy farmers and precipitate major changes in the dairy industry.

-- The expected benefits to consumers from the proposal would be much less than the loss of income to dairy farmers.

-- Consumers already have a lower-cost alternative to fresh milk because they can buy nonfat dry milk at grocery stores and reconstitute it themselves.

-- The public would not be assured of having a commercially reconstituted milk product that is as nutritious as fresh milk.

After receiving the petition, USDA invited comments from the dairy industry and the public. Over 8,000 comments were received by the time the comment period ended in February 1980.

In addition, the USDA prepared a comprehensive impact analysis of the proposed change in the pricing of reconstituted milk, which was published in the Nov. 17, 1980, Federal Register. USDA received about 500 comments during a recently-ended comment period on the impact statement.

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SEVEN USDA WORKERS INJURED IN TEXAS GRAIN ELEVATOR EXPLOSION

WASHINGTON, April 8--Seven employees of the U.S. Department of Agriculture's Federal Grain Inspection Service were injured Tuesday in an explosion at the municipally-owned Public Grain Elevator in Corpus Christi, Texas, which killed three and left 33 workers injured. Three are still missing.

The seven injured USDA workers are:

- James M. Davis, 26, Corpus Christi, Texas;
- Kevin Saunders, 25, Corpus Christi;
- Ruben Alvarado, 26, Corpus Christi;

-- Jose Escareno, 31, Corpus Christi;
-- Jesus Lopez, 51, Alice, Texas;
-- Judd Scott, 25, Corpus Christi; and
-- Albert Tripp, 50, Corpus Christi.

All were hospitalized, but Escareno was released after treatment.

David R. Galliart, acting administrator for USDA's Federal Grain Inspection Service, said jurisdiction over grain elevator safety rests with state and local officials when publicly-owned elevators are involved.

"USDA has no direct authority in this area," Galliart said. "But our policy is to withdraw our employees from grain handling facilities when unduly hazardous conditions exist."

Unduly hazardous conditions are defined as those that can cause or result in death or serious physical harm to FGIS personnel. Galliart said FGIS periodically inspects elevators where FGIS employees are located.

The explosion at Corpus Christi, coupled with an explosion the same day at Bellwood Farmer Co-op Elevator at Bellwood, Neb., where no FGIS employees were involved, make a total of five reported explosions in grain handling facilities during 1981.

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USDA 1981-CROP HONEY LOAN RATES HIGHER

WASHINGTON, April 9--Loan and purchase rates for the 1981 crop of honey will average 57.4 cents per pound, 7.1 cents more than in 1980, a U.S. Department of Agriculture official said today.

Edward Hews, acting administrator of USDA's Agricultural Stabilization and Conservation Service, said the 1981 level represents 60 percent of the April 1981 adjusted parity price of 95.6 cents per pound.

Loans and purchases will be offered on 1981-crop honey stored in bulk and other eligible containers, on or off farms, he said. Producers have until March 31, 1982 to request loans that will mature June 30, 1982.

Hews said eligible producers wishing to sell honey to USDA's Commodity Credit Corporation should contact their ASCS county office before June 30, 1982. Producers must specify the approximate quantity

they desire to sell.

The 1981-crop loan and purchase rates for extracted honey in 60-pound or larger containers, by color and class, are as follows:

White or lighter	58.2
Extra light amber	57.2
Light amber	56.2
Other table and non-table honey	54.2

Honey delivered to CCC by beekeepers to satisfy loans will be used for domestic food donation programs.

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